

Daily Market Outlook

3 May 2024

Will US Data Surprise?

- **USD rates.** USTs rallied for a second day in NY session, led by short-end bonds, as residue reaction to the FOMC outcome. In comparison to short-end bond yield moves over the past two days, the change in Fed funds futures pricing was more subdued, suggesting bond investors are demanding a narrower risk premium. Payroll and the labour market report tonight may dictate as to whether this bond bullishness can be sustained. Consensus is for nonfarm payroll to print 240K, which is around where the 6-month average was. Indeed, this may be the threshold to judge whether the high March payrolls represented a blip or more persistent tightness in the labour market. More important for the monetary policy outlook would be wage growth. On the liquidity front, there will be a net bill paydown of USD13bn next week, after the net paydown of USD33bn this week. Next week also brings coupon bond auctions, of USD58bn of 3Y bond, USD42bn of 10Y bond and USD25bn of 30Y bond. As we noted yesterday, the auction sizes of coupon bonds in the May-Jul quarter are the same as what had been indicated at the previous US Treasury quarterly update, representing confirmation that there will be no further upsize in long-end bond sales compared to the Feb-Apr quarter. For May, the sizes of the 10Y and 30Y coupon bond sales are the same as those in February, which will be downsized mildly in June and July. As such, next week's sales may be the last obstacle in the near term for long-end bond supply to be cleared.
- **DXY. Tactical Sell.** With FOMC out of the way, US data comes under greater scrutiny. ISM services and US labour market report are due tonight. In particular, the focus is on average hourly earnings and less so on NFP as strong hiring so far was largely due to rebound in immigration. This is something the Fed officials have come to agree on. For hourly earnings, consensus expects data to come in steady at 0.3% MoM. Potentially, US data release may be asymmetric to USD, given that the good run in economic data has likely ramped up expectations. USD may tactically ease lower if US data comes in softer. While high for longer narrative remains, the fear for higher for longer dissipates. This can be seen as a relief for risk proxies. Alongside the pullback in oil prices lately and relative calm with RMB, JPY, some of these AXJ FX may well enjoy a tactical recovery, especially those that were worst-hit YTD and are also

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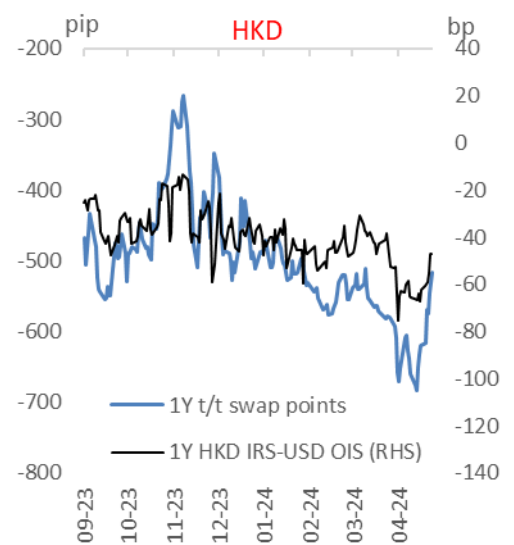
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net-oil importers. Among the AXJ complex, THB, KRW, TWD, PHP and IDR may have more room to strengthen vs USD. Technicals are also especially compelling for USDTHB (bearish divergence, double-top), USDIDR (island reversal top) and USDKRW (bearish divergence RSI). DXY was last seen at 105.22. Mild bearish momentum on daily chart intact while RSI fell. Risks skewed to the downside. Support at 105.55 levels (21 DMA), 104.80 (61.8% fibo retracement of Oct high). Resistance at 106.20, 106.50 levels (interim double top).

- **USDJPY. Heavy Bias.** USDJPY continued to trade with a heavy bias. This time the move lower was driven by falling UST yields and a softer USD. While it is true to say that intervention cannot change the underlying trend, but one can't help but marvel at how Japan authorities may have managed to pick an optimal time to intervene. The last time Japan intervened in Oct 2022 coincided with a USD peak then and the subsequent decline in USDJPY was a 16% move lower. Market dynamics then and now may not be the same as Fed then calibrated pace of hike from 75bps to 50bps and 25bps while today's scenario is not about hikes but about when Fed will (dovish) pivot. What the Fed needs now is for disinflation trend in the US to become more entrenched and softer price or wage-related print should see market position for that shift. Afterall, from a risk-reward perspective, there is room for dovish repricing to creep in. When that happens, there could be more room for USDJPY to extend its decline. Pair was last at 153 levels. Daily momentum turns bearish while RSI fell. Support at 152 (50 DMA), 150 levels. Resistance at 155. On recent sharp moves on the JPY, preliminary estimates from BOJ's daily current account balances pointed to 3.5trn JPY intervention on Thu and about 5.5trn JPY on Mon. This is similar to the size of intervention seen in mid-Oct 2022. Near term, we still do not rule out 2-way swings as markets may make another attempt to test the upside. But we reckon authorities should at least attempt to limit the high (i.e. lower high to ensure the intervention efforts are not wasted).
- **USDSGD. Tactical Short.** USDSGD fell, in line with our call for tactical sell. Move lower came amid pullback in UST yields, USD and relative strength seen in JPY and CNH. Pair was last at 1.3530 levels. Daily momentum and RSI indicators are mild bearish. Support here at 1.3530 (61.8% fibo retracement of Oct high to Dec low), 1.3490 (50, 200 DMAs). Resistance at 1.3660/70 levels. Our model estimates show S\$NEER was at 1.59% above model-implied midpoint. US payrolls data tonight may influence USDSGD. A softer than expected report should continue support a tactical sell USDSGD play in the interim.
- **IndoGBs** strengthened on Thursday alongside the Rupiah benefiting from the FOMC outcome. To recap, the conventional bond auction on Tuesday garnered decent demand with incoming bid of IDR50.2trn; IDR21.5trn of bonds were awarded, against

indicative target of IDR23trn. Cut-offs came in very near the lowest incoming bid levels for bonds that were awarded (FR101, FR100, FR098 and FR097), while no award was given to FR102. Today's focus will be the second SRBI auctions after previous BI policy rate hike. Already, at the auction on 26 April, SRBI rates were higher by 33-40bps compared to the 19 April auction. Chance may not be high for further upticks in SRBI rates, especially given the relief rally in USTs. Bonds flows have stabilised somewhat. In the five days to 30 April, banks and non-bank domestic investors added to bond positions, by IDR438.trn and IDR16.7trn respectively; meanwhile BI's holdings fell by IDR45.4trn, while foreign outflows amounted to a small IDR4.2trn.

- HKD rates.** HIBORs have rebounded from April lows after the broad downtrend that started in December. Weak HKD loan demand (HKD loan-to-deposit ratio was 83.2% at end-March) and the absence of stronger inflows into HKD assets apart from the usual Southbound Stock Connect flows explained the softness of HKD rates. The dynamics may be shifting. HKD loan demand may be gradually recovering with increased housing market transactions, while inflows into HKD assets may become stronger should the buoyant risk sentiment hold up. These shall lead to some upside bias to HIBORs near-term; further ahead, these factors shall prevent HKD IRS from falling too rapidly as and when USD rates fall in a more sustained manner. The t/t swap curve has moved steadily higher over recent days, mostly a reflection of rates differentials. On a multi-month horizon, we expect front-end HKD rates to underperform front-end USD rates in a falling rates environment.



Source: Bloomberg, OCBC Research



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